

**ANNUAL USE OF CAPITAL SURVEY - 2009****NAME OF INSTITUTION**

(Include Holding Company Where Applicable)

Bern Bancshares, Inc.

Person to be contacted regarding this report:	Gary Sparling or William Sheik
CPP Funds Received:	\$985,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	2/13/2009
Date Repaid <sup>1</sup> :	

RSSD: (For Bank Holding Companies)	1065190
Holding Company Docket Number: (For Thrift Holding Companies)	N/A
FDIC Certificate Number: (For Depository Institutions)	10919
City:	Bern
State:	Kansas

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

*American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.*

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	Loans during 2009 increased from \$25170 to \$28571 reflecting growth of 13.52%. Loan balances as of May 31, 2010 were \$30703. Reflecting a higher than average growth rate.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Loan growth occurred in all categories, with individual and commercial loans up the higher percentages.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Securities increased during the year from \$23869 to \$25708 which represents a 7.70% increase.
<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Allowances for loan losses were increased during 2009.

<input type="checkbox"/>	Reduce borrowings	
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

The State Bank of Bern was able to avoid curtailing lending activity as a result of utilizing the CPP funds as safety net. Management realizes that the bank is primarily an agricultural lender and economics in our local ag economy has been strong for the last several years. During this time the volume of loans has increased and management has concerns of the potential effects of the overall economy and high agricultural land prices may have on our customer base.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The bank has been able to increase our loan portfolio by utilizing the base that the CPP funds has allowed us.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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